

**THE SASKATCHEWAN RESEARCH COUNCIL  
EMPLOYEES' PENSION PLAN**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**



SASKATCHEWAN

## Provincial Auditor Saskatchewan

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### AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of net assets available for benefits and accrued pension benefits and surplus of The Saskatchewan Research Council Employees' Pension Plan as at December 31, 2006 and the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended. The Plan's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in the net assets available for benefits and changes in accrued pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan  
February 16, 2007

Fred Wendel, CMA, CA  
Provincial Auditor

## Statement 1

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN  
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS  
AND ACCRUED PENSION BENEFITS AND SURPLUS**

**As at December 31**  
(thousands of dollars)

|                                                          | <b>2006</b>        |                         |           | <b>2005</b>        |                         |           |
|----------------------------------------------------------|--------------------|-------------------------|-----------|--------------------|-------------------------|-----------|
|                                                          | Defined<br>Benefit | Defined<br>Contribution | Total     | Defined<br>Benefit | Defined<br>Contribution | Total     |
| <b>ASSETS</b>                                            |                    |                         |           |                    |                         |           |
| Segregated fund<br>(Note 3)                              | \$ 2,592           | \$ 19,847               | \$ 22,439 | \$ 2,621           | \$ 19,121               | \$ 21,742 |
| Net assets available<br>for benefits<br>(Statement 2)    | \$ 2,592           | \$ 19,847               | \$ 22,439 | \$ 2,621           | \$ 19,121               | \$ 21,742 |
| <b>ACCRUED<br/>PENSION<br/>BENEFITS</b><br>(Statement 3) | 2,314              | 19,847                  | 22,161    | 2,384              | 19,121                  | 21,505    |
| <b>SURPLUS</b>                                           | \$ 278             | \$ -                    | \$ 278    | \$ 237             | \$ -                    | \$ 237    |

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**Year ended December 31**  
(thousands of dollars)

|                                                                    | <u>2006</u>        |                         |                  | <u>2005</u>        |                         |                  |
|--------------------------------------------------------------------|--------------------|-------------------------|------------------|--------------------|-------------------------|------------------|
|                                                                    | Defined<br>Benefit | Defined<br>Contribution | Total            | Defined<br>Benefit | Defined<br>Contribution | Total            |
| <b>INCREASE IN ASSETS</b>                                          |                    |                         |                  |                    |                         |                  |
| Current period change in<br>value of investments                   | \$ 297             | \$ 2,225                | \$ 2,522         | \$ 255             | \$ 1,748                | \$ 2,003         |
| Contributions                                                      | <u>-</u>           | <u>655</u>              | <u>655</u>       | <u>-</u>           | <u>591</u>              | <u>591</u>       |
| Total increase in assets                                           | <u>\$ 297</u>      | <u>\$ 2,880</u>         | <u>\$ 3,177</u>  | <u>\$ 255</u>      | <u>\$ 2,339</u>         | <u>\$ 2,594</u>  |
| <b>DECREASE IN ASSETS</b>                                          |                    |                         |                  |                    |                         |                  |
| Refunds and transfers                                              | \$ -               | \$ 2,154                | \$ 2,154         | \$ -               | \$ 2,180                | \$ 2,180         |
| Retirement benefits                                                | <u>326</u>         | <u>-</u>                | <u>326</u>       | <u>325</u>         | <u>-</u>                | <u>325</u>       |
| Total decrease in assets                                           | <u>\$ 326</u>      | <u>\$ 2,154</u>         | <u>\$ 2,480</u>  | <u>\$ 325</u>      | <u>\$ 2,180</u>         | <u>\$ 2,505</u>  |
| (Decrease) increase in<br>net assets                               | \$ (29)            | \$ 726                  | \$ 697           | \$ (70)            | \$ 159                  | \$ 89            |
| Net assets available for<br>benefits, beginning of<br>year         | <u>2,621</u>       | <u>19,121</u>           | <u>21,742</u>    | <u>2,691</u>       | <u>18,962</u>           | <u>21,653</u>    |
| Net assets available for<br>benefits, end of year<br>(Statement 1) | <u>\$ 2,592</u>    | <u>\$ 19,847</u>        | <u>\$ 22,439</u> | <u>\$ 2,621</u>    | <u>\$ 19,121</u>        | <u>\$ 21,742</u> |

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN  
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS**

**Year ended December 31**

(thousands of dollars)

|                                                            | <u>2006</u>                    | <u>2005</u>                    |
|------------------------------------------------------------|--------------------------------|--------------------------------|
|                                                            | Defined<br>Benefit<br>(Note 4) | Defined<br>Benefit<br>(Note 4) |
| <b>Accrued pension benefits, beginning of year</b>         | \$ 2,384                       | \$ 2,472                       |
| <b>Increase in accrued pension benefits</b>                |                                |                                |
| Interest on accrued benefits                               | \$ 134                         | \$ 139                         |
| Pensioner increases (Note 1(e))                            | 26                             | 68                             |
| Experience losses (Note 5)                                 | 96                             | 30                             |
|                                                            | <u>\$ 256</u>                  | <u>\$ 237</u>                  |
| <b>Decrease in accrued pension benefits</b>                |                                |                                |
| Benefits paid                                              | \$ 326                         | \$ 325                         |
|                                                            | <u>\$ 326</u>                  | <u>\$ 325</u>                  |
| <b>Accrued pension benefits, end of year (Statement 1)</b> | <u>\$ 2,314</u>                | <u>\$ 2,384</u>                |

(See accompanying notes to the financial statements)

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. Description of the Plan**

The following description of the Plan is a summary only. For more complete information, reference should be made to the Plan Agreement. The Plan is administered by the Saskatchewan Research Council (SRC). The Pension Plan Advisory Committee (PAC) promotes awareness and understanding of the Plan, periodically reviews the results of the Plan, and discusses with SRC and Plan Members matters of concern to the Members. The PAC is comprised of a maximum of five members, of which one is from the SRC's senior management and two to four are appointed by SRC from the list of Plan Members.

**(a) General**

The Saskatchewan Research Council Employees' Pension Plan was established May 1, 1974 for the purpose of providing retirement income to SRC's employees. Up to and including December 31, 1990, the Plan provided the greater of a defined benefit or a defined contribution entitlement for Members of the Plan. Effective January 1, 1991, the Plan was amended and restated to provide solely a defined contribution benefit to Members. The changes did not affect existing pensioners who will continue to receive benefits as granted.

**(b) Funding Policy**

The employer contributes 4.875% of the Member's Earnings up to the Year's Maximum Pensionable Earnings (YMPE) and 7.5% of the Member's Earnings above the YMPE, as defined under the Canada Pension Plan, on a monthly basis. Under the terms of the Plan, members are neither allowed nor permitted to make contributions to the Plan.

**(c) Retirement**

Upon retirement, a transfer is available based on the Member's accumulated balance to another pension plan, a Locked-In Retirement Account Contract, a Prescribed Registered Retirement Income Fund or to purchase a life annuity contract.

**(d) Termination Refunds**

Upon application and subject to lock-in provisions, termination refunds are payable when a member ceases to be employed by SRC.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**1. Description of the Plan (continued)**

**(e) Defined Benefit Pensioners**

Pensioners receive benefit increases effective April 1st of each year based on CPI increases to the extent investment earnings exceed 6% in the previous calendar year. Based on the Plan rate of return, the pensioners will receive an increase on April 1, 2007. The last increase was effective April 1, 2006.

The SRC Board of Directors passed a resolution, such that in a year where indexing of pension benefits, as established under the Plan, does not provide for an automatic increase, or where the automatic increase is less than the maximum permitted, the Board will review the status of the pension plan and may provide for an ad hoc increase.

**2. Summary of Accounting Policies**

The financial statements are prepared in accordance with Canadian generally accepted accounting principles. The following principles are considered to be significant:

**(a) Basis of Accounting**

These financial statements are prepared using the accrual basis of accounting.

**(b) Investments**

Units in the segregated fund are recorded in the accounts at their net asset value per unit. Net asset value per unit is the market value of the investments in the segregated fund's portfolio divided by the total number of outstanding units in that fund. The adjustments necessary to record units at their net asset value at the year end are shown as an increase or decrease in net assets available for benefits.

Additional units are acquired when distributions are made by the fund. Cash dividends are not paid by the fund, however, investors can realize changes in the underlying unit values by redeeming units.

**3. Segregated Fund**

The investments are held in a segregated fund held by London Life Investment Management Ltd. The segregated fund holds the underlying Phillips, Hager & North funds on behalf of members.

The investment objectives of the Plan are to ensure that the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. The strategy employed to achieve these objectives is to invest cash flows from contributions into assets such as a segregated fund.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**3. Segregated Fund (continued)**

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

Credit risk arises from the potential for an issuer to default on its contractual obligations to the Plan. The Plan limits credit risk by dealing with issuers that are considered to be high quality.

The investment is comprised of London Life Investment Management Ltd. units of a segregated fund that holds units of Phillips, Hager & North Balanced Pension Trust Fund. The Balanced Pension Trust Fund has no fixed interest rate, and its returns are based on the performance of the fund. The fair value of the investment is considered to be the market value, the calculation of which is described in Note 2.

**4. Obligations for Pension Benefits**

The present value of the defined benefit obligation was determined using the projected benefits method prorated on service and the administrator's best estimate assumptions. Aon Consulting Inc. performed an actuarial valuation as at December 31, 2006 and as at December 31, 2005.

The pension obligation is based on a number of assumptions about future events including: interest rate, mortality and inflation. Actual rates may vary significantly from the long-term assumptions used.

Investment earnings in excess of 6% will be applied to provide increases to all defined benefit pensioners in receipt of benefits, which are paid from the pension fund. Therefore, the significant long-term assumption used in determining the actuarial value of accrued pension benefits was:

Interest rate    6%.

Upon termination of the defined benefit portion of the Plan, any balance remaining, after discharging all liabilities, shall belong to SRC. The balance may be distributed in a manner to be determined by SRC, at its sole discretion, after receiving prior approval in accordance with *The Pension Benefits Act, 1992*, the *Income Tax Act (Canada)* and the regulations thereunder.

The pension obligation is long term in nature. The Plan has no intention of settling its pension obligation in the near term and there is no market for settling pension obligations. Therefore, determination of the fair value of the pension liability is not practicable.

**THE SASKATCHEWAN RESEARCH COUNCIL EMPLOYEES' PENSION PLAN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**December 31, 2006**

**5. Experience Gains / Losses**

The experience losses in both 2006 and 2005 are the result of the Plan experiencing lower mortality rates during the year than those projected by the mortality table used by the actuary.

**6. Investment Performance**

The investment manager makes day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by SRC and the PAC. SRC and the PAC review the investment performance of the Plan in terms of the performance of the benchmark portfolio over 5 year rolling periods. The long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio. Results for the year ended December 31, 2006 compared to the benchmark are as follows:

| <b>Period ending<br/>December 31, 2006</b> | <b>Benchmark<br/>Return</b> | <b>Annualized<br/>Gross Return</b> |
|--------------------------------------------|-----------------------------|------------------------------------|
| One year return                            | 12.55%                      | 12.37%                             |
| Three year return                          | 11.37%                      | 11.37%                             |
| Five year return                           | 7.96%                       | 7.58%                              |

The one and three year rate of returns are provided by London Life Investment Management Ltd. based on the performance of the segregated funds. The five year rate of return is provided by Phillips, Hager & North.

**7. Related Party Transactions**

SRC provides general administrative services without charge.

**8. Administration**

Administration costs may be paid out of the Plan assets as provided for in the Plan text. Since the Plan was in a deficit position at January 1, 2003, the Board of Directors concurred with management's recommendation that SRC would not be reimbursed for administration costs until such time as a sufficient surplus exists. No administration costs were reimbursed in 2006 (2005 - \$0).